

# Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended .

Unit Name	Village of Westphalia	County	CLINTON	Type	VILLAGE	MuniCode	19-3-070
Opinion Date-Use Calendar	Jul 7, 2008	Audit Submitted-Use Calendar	Aug 13, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 376,403.00
General Fund Expenditure:	\$ 318,706.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 240,943.00
Governmental Activities Long-Term Debt (see instructions):	\$ 154,039.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Aaron	Last Name	Stevens	Ten Digit License Number	1101024055				
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**Village of Westphalia  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**February 29, 2008**

Village of Westphalia  
Clinton County, Michigan

February 29, 2008

VILLAGE COUNCIL AND ADMINISTRATION

Mark Schafer	President
Dave Boswell	Trustee
Stan Bauer	Trustee
Dean Kohagen	Trustee
Steve Miller	Trustee
Nort Upson	Trustee
Kevin Krzeminski	Trustee
Sandy Smith	Clerk
Wendy Thelen	Treasurer

Village of Westphalia  
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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and  
Members of the Village Council  
Village of Westphalia  
Westphalia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Westphalia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Westphalia's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 7, 2008

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

The following is a discussion and analysis of Village of Westphalia's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 29, 2008. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Government-wide:**

- Total net assets were \$2,120,257.
- Governmental activities net assets were \$1,086,014.
- Business-type activities net assets were \$1,034,243.

**Fund Level:**

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$490,024 with \$87,300 being designated for future capital projects.
- The General Fund realized \$29,703 more in revenues and other financing services than anticipated for the fiscal year. The General Fund operations expended \$55,644 less than appropriated.
- Overall, the General Fund balance increased by \$57,697 to \$240,963.

**Capital and Long-term Debt Activities:**

- The total long-term debt at February 29, 2008 was \$154,039.
- The Village remains well below its authorized legal debt limit.
- The total net change to the capital asset schedule for the primary government was (\$20,262).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds.

**Government-wide Financial Statements (Reporting the Village as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business.

This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2007-2008 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village-wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund make up the business-type activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, vehicles, equipment, infrastructure, etc. These values are not included in the fund financial statements.

**Fund Financial Statements (Reporting the Village's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

## Village of Westphalia

### MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Westphalia include the General Fund, the Major Street Fund, the Local Street Fund, the Equipment Replacement Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. Examples are the Sewer System Fund and the Water System Fund.

#### Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

#### Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

#### Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

### FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, the Village of Westphalia's combined net assets were \$2,120,237 at the end of this year's operations. The net assets of the governmental activities were \$1,085,994; the business-type activities were \$1,034,243.



Village of Westphalia  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
February 29, 2008

**Summary of Net Assets:**

The following summarizes the net assets as of February 29, 2008.

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>Assets</b>						
Current and other assets	\$ 468,722	\$ 504,179	\$ 586,250	\$ 632,498	\$ 1,054,972	\$ 1,136,672
Capital assets	770,291	750,029	447,350	402,266	1,217,641	1,152,295
Total assets	1,239,013	1,254,203	1,033,600	1,034,764	2,272,613	2,288,967
<b>Liabilities</b>						
Current liabilities	25,294	29,295	666	521	25,960	29,816
Noncurrent liabilities	154,039	138,914	120	-	154,159	138,914
Total liabilities	179,333	168,209	786	521	180,119	168,730
<b>Net Assets</b>						
Invested in capital assets-						
net of related debt	601,851	595,990	447,350	402,266	1,049,201	998,256
Restricted	146,397	115,461	-	-	146,397	115,461
Unrestricted	311,432	374,543	585,464	631,977	896,896	1,006,520
Total net assets	\$1,059,680	\$ 1,085,994	\$ 1,032,814	\$ 1,034,243	\$ 2,092,494	\$ 2,120,237

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year:

**Changes in Net Assets for the Fiscal Year Ended February 29, 2008**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>Revenues</b>						
Program Revenue:						
Charges for services	\$ 167,905	\$ 109,818	\$ 99,381	\$ 142,578	\$ 267,286	\$ 252,396
Grants and Contributions	67,452	70,048	-	-	67,452	70,048
General Revenues:						
Property Taxes	181,513	190,396	-	-	181,513	190,396
State Shared Revenue	68,887	69,108	-	-	68,887	69,108
Investment Earnings	12,380	10,604	11,722	11,062	24,102	21,666
Miscellaneous	9,682	7,341	-	-	9,682	7,341
Total Revenues	507,819	457,315	111,103	153,640	618,922	610,955

Village of Westphalia  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
February 29, 2008

**Changes in Net Assets for the Fiscal Year Ended February 29, 2008 - continued**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>Expenses</b>						
General Government	\$ 257,010	\$ 260,593	\$ -	\$ -	\$ 257,010	\$ 260,593
Public Safety	25,739	25,739	-	-	25,739	25,739
Public Works	76,411	107,862	-	-	76,411	107,862
Health and Welfare	14,846	11,296	-	-	14,846	11,296
Community and Economic Development	6,486	4,324	-	-	6,486	4,324
Recreation and Cultural	15,991	12,998	-	-	15,991	12,998
Other	5,174	8,189	-	-	5,174	8,189
Sewer System Operations	-	-	68,070	98,518	68,070	98,518
Water System Operations	-	-	98,100	53,693	98,100	53,693
<b>Total Expenses</b>	<b>401,657</b>	<b>431,001</b>	<b>166,170</b>	<b>152,211</b>	<b>567,827</b>	<b>583,212</b>
 Change in net assets	 106,162	 26,314	 (55,067)	 1,429	 51,095	 27,743
 Net assets, beginning of year	 953,518	 1,059,680	 1,087,881	 1,032,814	 2,041,399	 2,092,494
 Net assets, end of year	 <u>\$ 1,059,680</u>	 <u>\$ 1,085,994</u>	 <u>\$ 1,032,814</u>	 <u>\$ 1,034,243</u>	 <u>\$ 2,092,494</u>	 <u>\$ 2,120,237</u>

**Governmental Activities:**

The result of 2007-2008 governmental activity was an increase of \$26,314 in net assets to \$1,085,994. Of the total governmental activities' net assets, \$595,990 is invested in capital assets less related debt, \$115,461 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village government. The balance of \$374,543 is listed as unrestricted, having no legal commitment.

**Revenues:**

The three largest revenue categories were property taxes at 42%, charges for services at 24%, and State Shared Revenue at 15%. The Village levied one property tax millage for the year ended February 29, 2008, for general government operations at 8 mills, which is not assigned to any particular activity.

**Expenses:**

General government is the largest governmental activity, expending approximately 60% of the governmental activities total and includes the Legislative, President, Clerk, Treasurer, Assessor, Elections, and Hall and Grounds departments. Public works is the second largest activity, expending approximately 25% of the governmental activities total and includes public street maintenance and refuse collection.

**Business-type Activities:**

Net assets in business-type activities increased by \$1,429 during the 2007-2008 fiscal year. Of the business-type activities' net assets, \$402,266 is invested in capital assets less related debt. The balance of \$631,977 is listed as unrestricted, having no legal commitment.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

**FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS**

As the Village completed the 2007-2008 fiscal year, its governmental funds reported *combined* fund balances of \$490,004. This was a net increase of \$32,175. The net changes are summarized in the following chart:

	General Fund	Major Street	Local Street	Equipment Replacement	Nonmajor Governmental Fund (Parks and Recreation)
Fund Balance 2/28/2007	\$ 183,246	\$ 74,585	\$ 71,812	\$ 104,896	\$ 23,290
Fund Balance 2/29/2008	\$ 240,943	\$ 43,899	\$ 71,562	\$ 104,858	\$ 28,742
Net Change	\$ 57,697	\$ (30,686)	\$ (250 )	\$ (38)	\$ 5,452

**General Fund:**

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 29, 2008, the General Fund reported a fund balance of \$240,943. This amount is an increase of \$57,697 from the fund balance of \$183,246 reported as of February 28, 2007. The 2007-2008 original budget called for an addition to fund balance of \$2,350.

**General Fund Budgetary Highlights:**

The Village of Westphalia's budget is a dynamic document. Although adopted in March each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues and other financing sources totaled \$376,403; \$29,703 above the final amended budget. The final amended and original budgets for revenues and other financing sources were the same. The largest variances between actual revenues and the final amended budget were in charges for services. The Village did not amend the revenue budget for charges to other funds related to the street maintenance project that commenced during the fiscal year.

The Village's expenditure budget was increased by \$30,000 (less than 10% above the original budget) during the fiscal year. Actual Village expenditures for the fiscal year were \$55,644 under budget. General Fund actual expenditures were \$318,706 and the final budgeted amounts totaled \$374,350, which was a 15% difference.

**Major Street Fund:**

As of February 29, 2008, the Major Street Fund reported a fund balance of \$43,899, a decrease of \$30,686 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The Village's expenditure budget was increased by \$50,000 during the fiscal year. Actual Village expenditures for the fiscal year were \$23,717 under budget. Major Street Fund actual expenditures were \$74,733 and the final budgeted amounts totaled \$98,450.

**Local Street Fund:**

As of February 29, 2008, the Local Street Fund reported a fund balance of \$71,562, a decrease of \$250 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

**Equipment Replacement Fund:**

As of February 29, 2008, the Equipment Replacement Fund reported a fund balance of \$104,858, a decrease of \$38 from the prior year. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of the fiscal year, the Village had invested \$1,152,295 net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,579,492 for the primary government. Depreciation charges for the fiscal year totaled \$65,346 for the primary government. Additional information related to capital assets is detailed in Note D of the Financial Statements. Net book value of capital assets at February 29, 2008, was as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business- type Activities</u></b>	<b><u>Total</u></b>
Land	\$ 220,778	\$ -	\$ 220,778
Buildings and improvements, net	337,400	-	337,400
Machinery and equipment, net	60,770	-	60,770
Vehicles, net	-	-	-
Sewer system, net	-	184,051	184,051
Water system, net	-	218,215	218,215
Infrastructure, net	<u>131,081</u>	<u>-</u>	<u>131,081</u>
<b>Capital assets, net</b>	<b><u>\$ 750,029</u></b>	<b><u>\$ 402,266</u></b>	<b><u>\$ 1,152,295</u></b>

Long-term Debt - As of February 29, 2008, the Village has \$154,039 in outstanding debt.

**Outstanding Debt as of February 29, 2008:**

	<b><u>March 1, 2007</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Feb. 29, 2008</u></b>
Governmental Activities 2007 Promissory Note (Post Office)	<u>\$ 168,440</u>	<u>\$ -</u>	<u>\$ 14,401</u>	<u>\$ 154,039</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note E to the Financial Statements.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

**VILLAGE OF WESTPHALIA GOVERNMENT ECONOMIC OUTLOOK**

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Further cuts in revenue sharing funds could affect the services that we provide to the citizens of the Village of Westphalia.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the budget for the 2007-2008 fiscal year. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

**CONTACTING THE VILLAGE**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 587-4434.

## **BASIC FINANCIAL STATEMENTS**

Village of Westphalia

STATEMENT OF NET ASSETS

February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 307,338	\$ 322,983	\$ 630,321
Investments	146,747	310,000	456,747
Receivables	3,555	22,588	26,143
Due from other governmental units	23,461	-	23,461
Internal balances	23,073	(23,073)	-0-
Total current assets	504,174	632,498	1,136,672
Noncurrent assets			
Capital assets not being depreciated	220,778	-	220,778
Capital assets, net of accumulated depreciation	529,251	402,266	931,517
Total noncurrent assets	750,029	402,266	1,152,295
<b>TOTAL ASSETS</b>	1,254,203	1,034,764	2,288,967
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	8,983	190	9,173
Accrued liabilities	5,187	331	5,518
Current portion of long-term debt	15,125	-	15,125
Total current liabilities	29,295	521	29,816
Noncurrent liabilities			
Noncurrent portion of long-term debt	138,914	-	138,914
<b>TOTAL LIABILITIES</b>	168,209	521	168,730
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	595,990	402,266	998,256
Restricted for streets and highways	115,461	-	115,461
Unrestricted	374,543	631,977	1,006,520
<b>TOTAL NET ASSETS</b>	<u>\$ 1,085,994</u>	<u>\$ 1,034,243</u>	<u>\$ 2,120,237</u>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 260,593	\$ 97,290	\$ 4,674	\$ (158,629)	\$ -	\$ (158,629)
Public safety	25,739	-	-	(25,739)	-	(25,739)
Public works	150,613	-	106,125	(44,488)	-	(44,488)
Health and welfare	11,296	3,633	-	(7,663)	-	(7,663)
Community and economic development	4,324	-	-	(4,324)	-	(4,324)
Recreation and cultural	12,998	8,895	2,000	(2,103)	-	(2,103)
Interest	8,189	-	-	(8,189)	-	(8,189)
Total governmental activities	473,752	109,818	112,799	(251,135)	-0-	(251,135)
Business-type activities						
Sewer system	55,767	45,229	-	-	(10,538)	(10,538)
Water system	53,693	54,598	-	-	905	905
Total business-type activities	109,460	99,827	-0-	-0-	(9,633)	(9,633)
Total	<u>\$ 583,212</u>	<u>\$ 209,645</u>	<u>\$ 112,799</u>	(251,135)	(9,633)	(260,768)
General revenues						
Property taxes				190,396	-	190,396
State shared revenue				69,108	-	69,108
Investment earnings				10,604	11,062	21,666
Miscellaneous				7,341	-	7,341
Total general revenues				277,449	11,062	288,511
Change in net assets				26,314	1,429	27,743
Net assets, beginning of the year				1,059,680	1,032,814	2,092,494
Net assets, end of the year				<u>\$ 1,085,994</u>	<u>\$ 1,034,243</u>	<u>\$ 2,120,237</u>

See accompanying notes to financial statements.



Village of Westphalia

GOVERNMENTAL FUNDS BALANCE SHEET

February 29, 2008

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and cash equivalents	\$ 184,775	\$ 8,385	\$ 34,761
Investments	20,000	35,000	37,000
Accounts receivable	2,301	-	-
Due from other governmental units	12,010	7,824	3,627
Due from other funds	34,209	-	-
<b>TOTAL ASSETS</b>	<b>\$ 253,295</b>	<b>\$ 51,209</b>	<b>\$ 75,388</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 7,165	\$ -	\$ -
Accrued liabilities	5,187	-	-
Due to other funds	-	7,310	3,826
<b>TOTAL LIABILITIES</b>	<b>12,352</b>	<b>7,310</b>	<b>3,826</b>
<b>FUND BALANCES</b>			
Unreserved			
Designated for future capital projects	87,300	-	-
Undesignated, reported in			
General fund	153,643	-	-
Special revenue funds	-	43,899	71,562
<b>TOTAL FUND BALANCES</b>	<b>240,943</b>	<b>43,899</b>	<b>71,562</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 253,295</b>	<b>\$ 51,209</b>	<b>\$ 75,388</b>

Equipment Replacement	Nonmajor Governmental Fund (Parks and Recreation)	Total Governmental Funds
\$ 51,678	\$ 27,739	\$ 307,338
54,747	-	146,747
-	1,254	3,555
-	-	23,461
-	-	34,209
<u>\$ 106,425</u>	<u>\$ 28,993</u>	<u>\$ 515,310</u>

\$ 1,567	\$ 251	\$ 8,983
-	-	5,187
-	-	11,136

1,567	251	25,306
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-	-	87,300
-	-	153,643
<u>104,858</u>	<u>28,742</u>	<u>249,061</u>
<u>104,858</u>	<u>28,742</u>	<u>490,004</u>
<u>\$ 106,425</u>	<u>\$ 28,993</u>	<u>\$ 515,310</u>

Village of Westphalia

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

February 29, 2008

**Total fund balance - governmental funds** \$ 490,004

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 917,674	
Accumulated depreciation is	<u>(167,645)</u>	
Capital assets, net		750,029

Long-term liabilities are not due and payable in the current period the funds.  
and therefore are not reported as liabilities in the funds. Long-term liabilities  
at year-end consist of:

Note payable	<u>(154,039)</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 1,085,994</u></u>
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Village of Westphalia

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended February 29, 2008

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 190,396	\$ -	\$ -
Licenses and permits	500	-	-
Intergovernmental	73,782	43,549	19,825
Charges for services	93,988	-	-
Interest and rents	11,650	498	930
Other	6,087	-	42,751
TOTAL REVENUES	376,403	44,047	63,506
EXPENDITURES			
Current			
General government	228,500	-	-
Public safety	25,739	-	-
Public works	171	74,733	63,756
Health and welfare	11,296	-	-
Community and economic development	4,324	-	-
Recreation and cultural	2,419	-	-
Other	11,260	-	-
Capital outlay	12,407	-	-
Debt service	22,590	-	-
TOTAL EXPENDITURES	318,706	74,733	63,756
NET CHANGE IN FUND BALANCES	57,697	(30,686)	(250)
Fund balances, beginning of year	183,246	74,585	71,812
Fund balances, end of year	\$ 240,943	\$ 43,899	\$ 71,562

See accompanying notes to financial statements.

Equipment Replacement	Nonmajor Governmental Fund (Parks and Recreation)	Total Governmental Funds
\$ -	\$ -	\$ 190,396
-	-	500
-	2,000	139,156
-	8,895	102,883
1,529	2,431	17,038
-	1,255	50,093
1,529	14,581	500,066
-	-	228,500
-	-	25,739
-	-	138,660
-	-	11,296
-	-	4,324
-	9,129	11,548
-	-	11,260
1,567	-	13,974
-	-	22,590
1,567	9,129	467,891
(38)	5,452	32,175
104,896	23,290	457,829
<u>\$ 104,858</u>	<u>\$ 28,742</u>	<u>\$ 490,004</u>

Village of Westphalia

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>32,175</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(20,262)
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Repayment of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Note repayments	<u>14,401</u>
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<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>26,314</u></b>
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Village of Westphalia

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

February 29, 2008

	Business-type Activities		
	Sewer System	Water System	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 249,215	\$ 73,768	\$ 322,983
Investments	205,000	105,000	310,000
Accounts receivable	11,662	10,926	22,588
Due from other funds	21,411	-	21,411
Total current assets	487,288	189,694	676,982
Noncurrent assets			
Capital assets, net	184,051	218,215	402,266
TOTAL ASSETS	671,339	407,909	1,079,248
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	135	55	190
Due to other funds	15,235	29,249	44,484
Accrued interest payable	-	325	325
Accrued liabilities	6	-	6
TOTAL LIABILITIES	15,376	29,629	45,005
<b>NET ASSETS</b>			
Invested in capital assets	184,051	218,215	402,266
Unrestricted	471,912	160,065	631,977
TOTAL NET ASSETS	\$ 655,963	\$ 378,280	\$ 1,034,243

Village of Westphalia

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS

Year Ended February 29, 2008

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 45,229	\$ 54,598	\$ 99,827
OPERATING EXPENSES			
Labor charges	23,053	25,278	48,331
Contractual services	-	1,601	1,601
Supplies	938	5,267	6,205
Utilities	1,976	2,881	4,857
Other	-	3,382	3,382
Depreciation	29,800	15,284	45,084
TOTAL OPERATING EXPENSES	55,767	53,693	109,460
OPERATING INCOME (LOSS)	(10,538)	905	(9,633)
NONOPERATING REVENUES			
Interest revenue	9,398	1,664	11,062
CHANGE IN NET ASSETS	(1,140)	2,569	1,429
Net assets, beginning of year	657,103	375,711	1,032,814
Net assets, end of year	\$ 655,963	\$ 378,280	\$ 1,034,243

See accompanying notes to financial statements.



Village of Westphalia

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended February 29, 2008

	Business-type Activities		
	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 45,402	\$ 52,510	\$ 97,912
Cash paid for employees	(23,053)	(25,278)	(48,331)
Cash paid to suppliers	(2,956)	(13,234)	(16,190)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	19,393	13,998	33,391
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(205,000)	(105,000)	(310,000)
Maturity of investments	155,000	80,000	235,000
Interest revenue	9,398	1,664	11,062
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	(40,602)	(23,336)	(63,938)
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(21,209)	(9,338)	(30,547)
Cash and cash equivalents, beginning of year	270,424	83,106	353,530
Cash and cash equivalents, end of year	<u>\$ 249,215</u>	<u>\$ 73,768</u>	<u>\$ 322,983</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (10,538)	\$ 905	\$ (9,633)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	29,800	15,284	45,084
(Increase) decrease in accounts receivable	173	(2,088)	(1,915)
(Decrease) in accounts payable	(42)	(103)	(145)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 19,393</u>	<u>\$ 13,998</u>	<u>\$ 33,391</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Westphalia is located in Clinton County, Michigan and has a population of approximately 880. The Village of Westphalia operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and a maximum of six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Westphalia. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Westphalia contain all the funds controlled by the Village Council.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Westphalia  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2008

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**FUND FINANCIAL STATEMENTS - CONTINUED**

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Equipment Replacement Fund is used to account for the financial resources that are used for repairs and replacements of the Village's equipment.
- e. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

**3. Measurement Focus**

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Major Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. During the month of March, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the previous March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. During the month of March, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and at the fund level in the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 29, 2008 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**6. Cash, Cash Equivalents, and Investments - continued**

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All certificates of deposit held by the Village at year-end are classified as investments.

**7. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Infrastructure - streets	30 years
Buildings and improvements	50 years
Vehicles	8 years
Machinery and equipment	10-15 years
Water and sewer systems	40 years

**8. Property Tax**

The Village of Westphalia bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Westphalia on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 14 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 10.9454 mills (approximately \$10.95 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 29, 2008, the Village levied 8 mills for general governmental services. The total taxable value for the 2007 levy for property within the Village was \$23,564,333.

**9. Interfund Transactions**

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**10. Compensated Absences**

Accumulated vacation and sick pay amounts of the Department of Public Works (DPW) employees are vested (i.e., are payable at termination). As of February 29, 2008, DPW employees had no material accumulated unused vacation and sick amounts recorded in the government-wide financial statements.

Accumulated vacation and sick pay amounts for all other Village employees do not vest (i.e., are not payable at termination) and therefore have not been recorded in the government-wide financial statements.

**11. Long-term Liabilities**

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**12. Comparative Data**

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of February 29, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking accounts	\$ 630,321	\$ 642,052
Certificates of Deposit	<u>456,747</u>	<u>457,000</u>
Total	<u>\$ 1,087,068</u>	<u>\$ 1,099,052</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of February 29, 2008, the Village's accounts were insured by the FDIC for \$400,000 the amount of \$699,052 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 29, 2008, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

The cash and investments referred to above have been reported in either the cash or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 29, 2008:

Cash and cash equivalents	\$ 630,321
Investments	<u>456,747</u>
	<u>\$ 1,087,068</u>

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details primary government interfund receivables and payables at February 29, 2008:

Due to General Fund from:	
Major Street Fund	\$ 7,310
Local Street Fund	3,826
Water System Fund	7,838
Sewer System Fund	<u>15,235</u>
	<u>\$ 34,209</u>
Due to Sewer System Fund from:	
Water System Fund	<u>\$ 21,411</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended February 29, 2008 was as follows:

**Governmental activities**

	Balance Mar. 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Capital assets not being depreciated:				
Land	\$ 220,778	\$ -	\$ -	\$ 220,778
Capital assets being depreciated:				
Infrastructure - streets	148,392	-	-	148,392
Buildings and improvements	364,023	-	-	364,023
Vehicles	63,508	-	-	63,508
Machinery and equipment	<u>120,973</u>	<u>-</u>	<u>-</u>	<u>120,973</u>
Total at historical cost	696,896	-0-	-0-	696,896



Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE D: CAPITAL ASSETS - CONTINUED**

Less accumulated depreciation for:

Infrastructure - streets	\$( 12,365 )	\$( 4,946 )	\$ -	\$( 17,311 )
Buildings and improvements	( 19,343 )	( 7,280 )	-	( 26,623 )
Vehicles	( 62,206 )	( 1,302 )	-	( 63,508 )
Machinery and equipment	( 53,469 )	( 6,734 )	-	( 60,203 )
Total accumulated depreciation	( 147,383 )	( 20,262 )	-0-	( 167,645 )
Net capital assets being depreciated	549,513	( 20,262 )	-0-	529,251
Capital assets, net	\$ 770,291	\$( 20,262 )	\$ -0-	\$ 750,029

Depreciation expense was charged to the following governmental activities:

General government	\$ 6,859
Public works	11,953
Recreation and cultural	1,450
Total depreciation expense	\$ 20,262

**Business-type activities**

	Balance Mar 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Capital assets being depreciated:				
Sewer system	\$ 1,192,006	\$ -	\$ -	\$ 1,192,006
Water system	622,107	-	-	622,107
Total at historical cost	1,814,113	-0-	-0-	1,814,113
Less accumulated depreciation for:				
Sewer system	( 978,155 )	( 29,800 )	-	( 1,007,955 )
Water system	( 388,608 )	( 15,284 )	-	( 403,892 )
Total accumulated depreciation	( 1,366,763 )	( 45,084 )	-0-	( 1,411,847 )
Capital assets, net	\$ 447,350	\$( 45,084 )	\$ -0-	\$ 402,266

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 29, 2008:

	Balance Mar. 1, 2007	Additions	Deletions	Balance Feb. 29, 2008	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
2007 Promissory Note (Post Office)	\$ 168,440	\$ -0-	\$ 14,401	\$ 154,039	\$ 15,125

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE E: LONG-TERM DEBT - CONTINUED**

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**

Promissory Note

\$176,458 Promissory Note dated July 28, 2006, for the construction of the post office building, due in monthly installments ranging from \$1,076 to \$1,870 through July 28, 2016, with interest of 5.05 percent, payable monthly.

\$ 154,039

The annual requirements to pay the debt principal and interest outstanding for the promissory note are as follows:

<u>Year Ending February 28/29</u>	<u>Primary Government</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 15,125	\$ 7,465
2010	15,931	6,659
2011	16,756	5,834
2012	17,624	4,966
2013	18,523	4,067
2014-2017	<u>70,079</u>	<u>6,301</u>
	<u>\$ 154,039</u>	<u>\$ 35,292</u>

**NOTE F: RETIREMENT PLAN**

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended February 29, 2008, the Village's annual pension cost of \$7,460 for the plan was more than the Village's actuarially estimated annual contribution of \$6,804. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE F: RETIREMENT PLAN - CONTINUED**

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 233,000	\$ 253,105	\$ 278,681
Actuarial accrued liability (AAL) (entry age)	282,201	290,930	307,207
Unfunded AAL	49,201	37,825	28,526
Funded ratio	83 %	87 %	91 %
Covered payroll	81,253	80,187	79,234
UAAL as a percentage of covered payroll	61 %	47 %	36 %

  

	Year Ended February 28/29,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 6,935	\$ 8,947	\$ 7,460
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

**NOTE G: RISK MANAGEMENT**

The Village is exposed to various risks of loss including accidental death, dismemberment, disability, employer's liability, errors and omissions, and workers' compensation for which the Village carries commercial insurance.

**NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended February 29, 2008, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 6,100	\$ 6,439	\$ 339

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

**NOTE I: FUND EQUITY RESERVES AND DESIGNATIONS**

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures/expenses or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes. These amounts have been recorded at the fund level for governmental funds only to indicate management's plans for these funds.

As of February 29, 2008, a portion of the General Fund fund balance had been designated in the amount of \$87,300 for future capital projects.

**NOTE J: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 29, 2008:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Streets and highways

Major streets

Local streets

\$ 43,899

71,562

\$ 115,461

## **REQUIRED SUPPLEMENTARY INFORMATION**

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 170,000	\$ 170,000	\$ 190,396	\$ 20,396
Licenses and permits	500	500	500	-
Intergovernmental - State	60,000	60,000	73,782	13,782
Charges for services	72,500	72,500	93,988	21,488
Interest and rents	7,000	7,000	11,650	4,650
Other	36,700	36,700	6,087	(30,613)
<b>TOTAL REVENUES</b>	<b>346,700</b>	<b>346,700</b>	<b>376,403</b>	<b>29,703</b>
EXPENDITURES				
Current				
General government				
Legislative	6,100	6,100	6,439	(339)
President	7,000	7,000	6,769	231
Clerk	17,600	17,600	16,537	1,063
Treasurer	3,550	3,550	3,247	303
Assessor	200	200	-	200
Elections	1,100	1,100	-	1,100
Hall and grounds	210,000	210,000	195,508	14,492
<b>Total general government</b>	<b>245,550</b>	<b>245,550</b>	<b>228,500</b>	<b>17,050</b>
Public safety				
Fire department	14,100	14,100	14,100	-
Police department	13,000	13,000	11,639	1,361
<b>Total public safety</b>	<b>27,100</b>	<b>27,100</b>	<b>25,739</b>	<b>1,361</b>
Public works				
Refuse collection	200	200	171	29
Health and welfare				
Ambulance	15,000	15,000	11,296	3,704
Community and economic development				
Planning commission	6,900	6,900	4,324	2,576
Zoning commission	500	500	-	500
<b>Total community and economic development</b>	<b>7,400</b>	<b>7,400</b>	<b>4,324</b>	<b>3,076</b>
Recreation and cultural				
Parks and recreation	5,000	5,000	2,419	2,581

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Other				
Audit fees	\$ 6,500	\$ 6,500	\$ 6,100	\$ 400
Legal fees	4,800	4,800	356	4,444
Miscellaneous	17,800	22,800	4,804	17,996
Total other	29,100	34,100	11,260	22,840
Capital outlay	15,000	15,000	12,407	2,593
Debt service	-	25,000	22,590	2,410
TOTAL EXPENDITURES	344,350	374,350	318,706	55,644
NET CHANGE IN FUND BALANCE	2,350	(27,650)	57,697	85,347
Fund balance, beginning of year	183,246	183,246	183,246	-0-
Fund balance, end of year	<u>\$ 185,596</u>	<u>\$ 155,596</u>	<u>\$ 240,943</u>	<u>\$ 85,347</u>

Village of Westphalia

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - State	\$ 40,000	\$ 40,000	\$ 43,549	\$ 3,549
Charges for services	4,000	4,000	-	(4,000)
Interest	500	500	498	(2)
TOTAL REVENUES	44,500	44,500	44,047	(453)
EXPENDITURES				
Current				
Public works				
Administrative	18,369	18,369	4,400	13,969
Construction	-	50,000	46,649	3,351
Street maintenance	28,381	28,381	23,684	4,697
Traffic service maintenance	1,700	1,700	-	1,700
TOTAL EXPENDITURES	48,450	98,450	74,733	23,717
NET CHANGE IN FUND BALANCE	(3,950)	(53,950)	(30,686)	23,264
Fund balance, beginning of year	74,585	74,585	74,585	-0-
Fund balance, end of year	<u>\$ 70,635</u>	<u>\$ 20,635</u>	<u>\$ 43,899</u>	<u>\$ 23,264</u>



Village of Westphalia

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 20,000	\$ 20,000	\$ 19,825	\$ (175)
Interest	600	600	930	330
Miscellaneous	1,500	1,500	42,751	41,251
TOTAL REVENUES	22,100	22,100	63,506	41,406
EXPENDITURES				
Current				
Public works				
Administrative	5,750	5,750	2,000	3,750
Construction	2,500	2,500	42,751	(40,251)
Street maintenance	20,700	20,700	19,005	1,695
TOTAL EXPENDITURES	28,950	28,950	63,756	(34,806)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(6,850)	(6,850)	(250)	6,600
OTHER FINANCING SOURCES				
Transfers in	20,000	20,000	-	(20,000)
NET CHANGE IN FUND BALANCE	13,150	13,150	(250)	(13,400)
Fund balance, beginning of year	71,812	71,812	71,812	-0-
Fund balance, end of year	<u>\$ 84,962</u>	<u>\$ 84,962</u>	<u>\$ 71,562</u>	<u>\$ (13,400)</u>

Village of Westphalia  
Equipment Replacement Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended February 29, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ 1,300	\$ 1,300	\$ 1,529	\$ 229
EXPENDITURES				
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>1,567</u>	<u>433</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(700)	(700)	(38)	662
OTHER FINANCING SOURCES				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>(15,000)</u>
NET CHANGE IN FUND BALANCE	14,300	14,300	(38)	(14,338)
Fund balance, beginning of year	<u>104,896</u>	<u>104,896</u>	<u>104,896</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 119,196</u>	<u>\$ 119,196</u>	<u>\$ 104,858</u>	<u>\$ (14,338)</u>

Principals

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Aaron M. Stevens, CPA  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Honorable Mayor and  
Members of the Village Council  
of the Village of Westphalia

We have audited the accompanying financial statements of the governmental activities, business-type activities, each governmental major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated July 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Westphalia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We identified the following control deficiencies that we consider be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of financial statements for the year ended December 31, 2006 and after, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Village prepares monthly financial reporting at the fund level. However, the annual audited financial statements for the year ended February 29, 2008 for the Village of Westphalia required significant audit adjustments.

## PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The staff at the Village of Westphalia understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. This issue was noted and reported in our audit comments last year. We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

### MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Material journal entries for the adjustment of accrued interest receivable, accounts receivable, accounts payable, interfund activity, and depreciation expense were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Village's internal controls. A similar issue was noted and reported in our audit comments last year.

We recommend that the Village take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

### BUDGETS

As noted in the financial statements, some of the activities and funds of the Village exceeded the amounts appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This communication is intended solely for the information and use of management and Members of the Village Council of the Village of Westphalia, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 7, 2008